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POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2019	Docket No. ACR2019

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-25 OF CHAIRMAN'S INFORMATION REQUEST NO. 9

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 9, issued on January 31, 2020. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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1. Of the 662 post offices suspended at the end of FY 2016, 250 post offices remained suspended at the end of FY 2018.[1] In the FY 2018 ACR, the Postal Service provided a timeline for resolving these 250 suspended post offices in FY 2019, but did not meet projected targets.[2] Please explain in detail why the Postal Service was unable to meet this timeline.

RESPONSE:

The Postal Service's Delivery Operations department continued to face considerable staffing challenges in FY 2019, despite its best efforts to add needed personnel as outlined in the FY 2018 ACR's discussion of Consumer Access to Postal Services. Attrition at both Headquarters and in the field made meeting the planned post office suspension timeline for FY 2019 a difficult endeavor. Rebuilding of the department team with qualified personnel has taken additional time.

At the end of FY 2018, Headquarters Delivery Field Performance experienced a complete turnover in staff who had been working on this suspension resolution effort since 2016. Accordingly, beginning in January 2019, there were only two staff members to work on this project as well as all other efforts for the department. At the time when the Postal Service submitted its timeline for the FY 2018 ACR, Delivery Operations anticipated filling the relevant vacancies by FY 2019 Quarter 3. However, finding qualified applicants for the positions was a challenge. The Postal Service attempted to place detailed personnel in the department specifically for this effort, while continuing to

[1] Docket No. ACR2018, United States Postal Service FY 2018 Annual Compliance Report, December 28, 2018, at 62 (FY 2018 ACR).

re-post the positions for permanent hire, but had difficulty retaining personnel for this effort.

Additionally, in researching the open suspension dockets throughout FY 2019, Delivery Operations learned that many of the field personnel, who actually performed the duties of suspension due diligence, also had retired or were now working in different positions. As a result of this turnover of both Headquarters and field personnel, all research in FY 2019 required additional time and effort to research the documentation for the remaining suspension dockets. This staffing issue has contributed to the delay in completion of due diligence and records research to resolve the remaining post office suspensions.

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[2] FY 2018 ACR at 65; Docket No. ACR2018, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY19 Quarter 4, November 12, 2019, at 1-2.

2. Of the 662 post offices suspended at the end of FY 2016, 228 post offices remained suspended at the end of FY 2019. FY 2019 ACR at 61. Please provide a timeline and detailed plan for resolving these suspended post offices.

RESPONSE:

Plans for FY 2020 efforts to resolve the remaining post office suspensions began in FY 2019 Quarter 4, when dedicated resources were obtained, and now, as of FY 2020 Quarter 2, Headquarters staff vacancies have been filled. Additional guidance for the Field Coordinators is being provided by these new team members. Delivery Operations has established an ongoing cadence of bi-weekly, and in some Areas weekly, teleconferences with Area Coordinators to track progress on resolution efforts. Both Headquarters and Area teams are also setting up one-on-one training sessions with District Coordinators to assist them and answer any questions. The ongoing focus is on confirming that the remaining suspension dockets are completed accurately and thoroughly, and to ensure compliance with the requirements of USPS Handbook PO-101, *Postal Service-Operated Retail Facilities Discontinuance Guide*.

With this guidance and support, the Postal Service anticipates that the 228 remaining suspended post offices will be addressed with fully reviewed dockets by the end of FY 2020. As a result, the Postal Service anticipates resolving all 228 remaining suspensions (of the original 662) – through either re-opening or closing/discontinuance – by September 30, 2020.

Additionally, Delivery Operations is updating senior management in the Postal Service on resolution efforts, status, and progress in bi-weekly and monthly Operations meetings.

3. Please describe actions taken to improve customer satisfaction with Market Dominant products for residential and small/medium business customers in FY 2019. In the response, please explain whether these actions were effective.

RESPONSE:

In FY 2019, the Postal Service sought to enhance the end-to-end experience for Small Business customers by piloting the Small Business Direct Mail/Every Door Direct Mail® (EDDM) End-to-End Marketing Transaction Portal. This digital portal centralizes information and resources for Small Businesses so that they can seamlessly interact with the Postal Service to design and deliver more impactful marketing campaigns. This pilot is the first step in a larger redesigned Small Business customer experience and relationship management program that will act as a test platform for future services to better serve Small Business customers. The portal has simplified the process for small businesses to launch marketing campaigns and has resulted in over 958 direct mail campaigns since its launch in Q3 FY2019. Based on the effectiveness of the pilot, residential and small business customers have demanded more digital channels to showcase their marketing campaign without incurring additional postage. As a result of this increased demand, the Postal Service has expanded the portal to include the integration of email, Facebook, and other online display advertising, including a new Political Mail-focused platform to offer even more service advantages.

4. Please refer to Library Reference USPS-FY19-4, December 27, 2019, Excel files "FY19 MD Fee Distribution.xlsx" and "FY19 Special Services PRC.xlsx," Library Reference USPS-FY19-NP28, Excel file "EOY_FY2019RPWextractfile.xlsx," and Attachment A. Attachment A reproduces the fee revenue as reported in "FY19 MD Fee Distribution.xlsx" and compares it with fee revenue reported in the Revenue, Pieces, and Volume (RPW) report ("EOY_FY2019RPWextractfile.xlsx").

a. Please confirm that the source of the data reported in "FY19 MD Fee Distribution.xlsx," tab "MD Fees," cells B9 and B10 is "FY19 Special Services PRC.xlxs."

b. Please reconcile and explain the differences in First-Class Mail fee revenue as reported in "FY19 MD Fee Distribution.xlsx" with the "EOY_FY2019_RPWextractfile.xlsx," tab "Rate Category RPW Data," as shown in Appendix A.

c. Please confirm that the amount reported in "FY19 MD Fee Distribution.xlsx," cell B25 as "Bulk Parcel Return Service" should be removed from Marketing Mail Fee Revenue in "FY19 MD Fee Distribution" and should instead be included as "Other Domestic Ancillary Services," as it is reported in "EOY_FY2019_RPWextractfile.xlsx," tab "RPW Report," cell E82. If necessary, please submit a corrected version of "FY19 MD Fee Distribution.xlsx" as part of your response.

RESPONSE:

a. Confirmed.

b. A corrected version of the FY19 Market Dominant Fee Distribution is provided as part of USPS-FY19-48. Revisions are noted with yellow highlights.

Business Reply Mail: Fee revenue associated with First-Class Package Service Business Reply Mail was incorrectly allocated to First-Class Mail Business Reply Mail. This has been corrected in the revision filed with this response.

Certificate of Mailing: Fee revenue for 'Other Firm Mailing Book' was incorrectly excluded from the fee distribution. This has been corrected in the revision filed with this response.

c. Confirmed. References to Bulk Parcel Return Service are therefore deleted from tab MD Fees, row 25, and tab Marketing Mail, column C in the revised FY19 MD Fee Distribution filed in USPS-FY19-48. Revisions are noted with yellow highlights.

5. Please refer to the Postal Service's response to Chairman's Information Request No. 4, questions 37, 38, and 39, in which the Postal Service estimates the impact on contribution for USPS Marketing Mail Carrier Route, USPS Marketing Mail Flats, and USPS Marketing Mail Parcels, respectively, following the implementation of Docket No. R2020-1 price increases.[3] The Postal Service states that in making these projections, it adjusted FY 2019 Cost and Revenue Analysis unit costs for inflation by increasing them by 1 or 2 percent. Responses to CHIR No. 4, questions 37-39. Please provide workpapers that support the Postal Service's estimates. In addition, please provide a narrative that explains how increasing unit costs by 1 or 2 percent results in the additional contribution shown in each "FY 2020 Contribution Impact" table. *Id.*

RESPONSE:

Question 37, 38, and 39 of ChIR No. 4 requested the estimated impact of the various approved Marketing Mail rate increases on FY 2020 volume, revenue, cost, and contribution. In this context, impact was interpreted to mean the estimated difference between what volume, revenue, cost, and contribution would have been expected to be in the absence of any such rate increase (i.e., the before-rates or BR scenario), and what volume, revenue, cost, and contribution were expected to be with the approved rate increases (the after-rates or AR scenarios). It is necessary, therefore, to distinguish between the estimated effects of inflation on contribution <u>within</u> any scenario (e.g., BR, ARJan, AROct), versus the estimated effects of inflation on contribution <u>between</u> scenarios. Only the latter estimate reflects the effects of inflation on the contribution *impact* of the approved rate increases, as opposed to merely indicating the effects of inflation on contribution within any given scenario.

[3] *See* Responses of the United States Postal Service to Questions 1-41 of Chairman's Information Request No. 4, January 24, 2020, questions 37-39 (Responses to CHIR No. 4).

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To use an illustration from the Excel file ChIR.9.Q.5.Impact provided in USPS-FY19-48, consider the estimated contribution impact of the Carrier Route rate increase, evaluated in this instance for the actual implementation date in January 2020 (i.e., the partial-year effect). To calculate the FY 2020 contribution impact, it is first necessary to derive what FY 2020 contribution is estimated to be with the rate increase (ARJan scenario), and then subtract from that what contribution would have been without any rate increase (the BR scenario). Without any assumed inflation, the unit costs in both scenarios are estimated to stay at the same level as reported in the FY 2019 CRA, or 26.31 cents. At the respective ARJan and BR volumes, the respective total costs are $1,456.30 million and $1,462.26 million. ARJan total costs are lower, because ARJan volumes are lower due to the demand response to higher prices. In contrast, ARJan contribution is higher, reflecting the joint effects of both higher revenue and lower costs. Specifically, in this example, ARJan contribution is $45.88 million, compared with $35.35 million in the BR scenario. The contribution impact (with no inflation) from implementation of the new rates is the difference between these two contribution figures from the two scenarios, or $10.53 million (= 45.88 – 35.35). This figure matches the corresponding contribution impact that appeared in the second table in the response to ChIR No. 4 question 37.

The effect of inserting inflation into the calculation can also been seen in the spreadsheet, Assuming an inflation rate of 1 percent, unit costs in both scenarios are 1 percent higher (thus 26.58 cents), with the same percentage increase effect on total costs. Since total revenues are the same as without inflation, the increase in total costs means that contribution has gone down in both the ARJan scenario and the BR scenario, compared with the baseline of no inflation. Specifically, contribution in the ARJan scenario is $31.32 million, and in the BR scenario, $20.73 million. But while contribution in each scenario has declined from the no-inflation baseline, the decline in the BR scenario of 14.62 million (= 35.35 – 20.73) is slightly *greater* than the corresponding decline in the ARJan scenario of 14.56 million (= 45.88 – 31.32). As explained in the ChIR No. 4 responses, this occurs because with the BR scenario volumes higher, there are more pieces left for which the higher unit costs drive up total costs. Therefore, with contribution impact measured as the difference in total contribution between the two scenarios (at any given level of inflation), higher inflation will lead to a higher difference, although in all of these instances, the empirical effect is so small as to be immaterial. The very minor difference in the above total contribution estimates of 0.6 million (= 14.62 – 14.56) is the same as the implicit difference between the corresponding no-inflation contribution impact and the one-percent inflation contribution impact reported in the second table of the response to question 37 of 0.6 million (= 10.59 - 10.53).

The same combination of factors (i.e., unit costs at any given level of inflation multiplied by lower AR volumes) results in the observed effect of higher inflation leading to slightly higher estimated AR contribution impacts relative to the same level of inflation applied to the BR scenario. This relationship holds for each assumed AR implementation date, and across all of the Marketing Mail products discussed in the

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ChIR No. 4 responses to questions 37-39. Full details appear in the Excel spreadsheet provided in USPS-FY19-48.

6. In the FY 2019 ACR, the Postal Service states that the decline in per-piece revenue for USPS Marketing Mail Carrier Route was "likely due to a shift in composition of pieces within the product to lower-priced cells." FY 2019 ACR at 15. The Postal Service also states that "the volume of pieces priced at the lower 5-Digit Carrier Route pallet ('Pure CR Pallets') . . . increased from 13 percent of all pieces in FY 2018 to 15 percent in FY 2019." *Id.* Please explain why the increase in the percentage of Carrier Route pieces being processed on "Pure Pallets" did not result in a corresponding decrease in unit attributable costs.

RESPONSE:

While the increase in pieces in 5-Digit Carrier Route pallets would be expected to decrease unit attributable costs, other things equal, the magnitude of the expected change would necessarily be limited by the volume of mail affected (i.e., 2 percent of Carrier Route pieces). A favorable shift in measured unit attributable costs for Carrier Route that would be expected from mix changes also was offset by adverse productivity changes in several relevant mail processing operations, including FSS and incoming bundle sorting operations on both APBS and APPS equipment. Finally, the Postal Service notes that the sampling coefficient of variation (CV) for Carrier Route mail processing costs is 3 percent, and sampling variability may also make small changes in the true costs difficult to discern in practice.

7. Please refer to Attachments B and C, filed under seal.

a. Please confirm that the average manual flat productivity for the facilities listed in Attachment B was 148 pieces per hour in FY 2019 and that these facilities manually processed an average of 5.1 million pieces in FY 2019. If not confirmed, please provide the average manual productivity for these facilities in FY 2019.

b. Please confirm that the average manual flat productivity for the facilities listed in Attachment C was 1,114 pieces per hour in FY 2019 and that these facilities manually processed an average of 5.1 million pieces in FY 2019. If not confirmed, please provide the average manual productivity for these facilities in FY 2019.

c. Please provide any known reasons why the facilities listed in Attachment B were significantly less productive the facilities listed in Attachment C.

d. For each facility listed in Attachment B, please explain what efforts the Postal Service will take in FY 2020 to improve manual productivity at the facility.

RESPONSE:

a. Confirmed

b. Confirmed

c. Productivity differences between sites may arise for a number of reasons, including but not limited to effects of facility configuration, the complexity of mail flows within facilities, and the need to staff processing windows for various operations—particularly for operations such as manual flats that serve in part as backstops to automated processing.

However, for the sites listed in Attachments B and C, which represent the outer tails of the manual flat productivity distribution, measurement issues likely exaggerate the actual productivity differences. As noted in the response to

Question 11 of this Information Request, for sites that have automated flat sorting equipment, manual flat workload (TPH) is estimated from automated processing volumes and manual down flow percentages. Sites that do not have flat sorting equipment enter their manual flat volumes manually (e.g., based on conversions of linear measurements to pieces). In Attachment C, two of the top three facilities with the highest productivity do not have flat sorting equipment and thus had their manual flat volume entered manually. Additionally, statistical variability in the survey procedures used to estimate manual volumes for sites with automation can introduce systematic differences between actual and measured volumes for some sites. Sites for which measured productivities appear unsustainably high (or unreasonably low) may in part have favorable (or unfavorable) measurement errors in the estimated TPH. Clock ring practices, such as promptness of moving employees to operations in line with their actual work assignments, may also affect alignment of workhours and workloads.

d. One significant opportunity to improve productivity for some of the facilities in Attachment B is for the facilities that have FSS machines (such as Facility No. 4 on the Attachment B list) to work with their delivery partners to convert more Non-FSS Delivery Units to FSS Delivery Units and add volume to their FSS machines (up to machine capability) based on the number of delivery points. Another major effort across all sites is to ensure that, as employees are moved from one operation to another, they are making clock ring moves to the proper operation numbers so that their workhours get charged to the appropriate operation and LDC (Labor Distribution Code). This will allow facilities to gain a better understanding of productivity opportunities by operation and drive productivity improvement in those operations.

8. Please refer to the Attachment D, filed under seal, which provides information for two facilities (Facility 1 and Facility 2):

a. Please provide any known reasons why Facility 1 had a bundle breakage percentage that was three times greater than that of Facility 2 in FY 2019.

b. Please provide any known reasons why Facility 1 had a Flats Sequencing System (FSS) productivity that was 40 percent below Facility 2 in FY 2019.

c. Please provide any known reasons why Facility 2 manually processed more than six times as many manual pieces than Facility 1 in FY 2019.

d. For each facility, please disaggregate the total number of bundles into Incoming Primary, Incoming Secondary, Outgoing Primary, and Outgoing Secondary operations in FY 2018 and FY 2019.

e. For each facility, please provide Automated Flats Sorting Machine (AFSM) volume and workhours by operation in FY 2018 and FY 2019.

f. For each facility, please list the average pieces per bundle in FY 2018 and FY 2019. If this data is unavailable, please explain why Intelligent Mail barcode (IMb) data cannot be used, and provide the best estimate of pieces per bundle for each facility.

g. For each facility, please provide the number of bundles on FSS pallets in FY 2018 and FY 2019. Please identify the percentage of the bundles on FSS pallets that avoided bundle processing in FY 2018 and FY 2019.

RESPONSE:

a. To begin, although it does not alter the thrust of the question, the bundle breakage rate for Facility 2 cited in Attachment D appears to be somewhat understated. It appears that data from a different facility (in another state) were inadvertently included with the actual Facility 2 data. The other facility is equipped with APBS, and exhibited a lower bundle breakage rate than either Facility 2 or Facility 1 (both with APPS). Appropriately omitting the data for that facility from the Facility 2 calculation increases the breakage rate for Facility 2 relative to what was reported in Attachment D by approximately one percentage point. This reduces the gap between the two facilities, although it remains of the same general magnitude.

There are no known reasons for the difference in bundle breakage percentages of this magnitude. Both facilities have the same type of equipment, so that does not seem to be a factor. But other possibilities include differences in the quality of bundles received, or differences in downstream facilities. If breakage occurs at a downstream facility (typically a Processing and Distribution Center), the fault is attributed to the first scan facility, which in these instances are both NDCs. Thus, in some sense, the fact these facilities have different reported incidences of bundle breakage may be in part due to the reporting procedure that ties the flagged observation (of circumstances that may occur over multiple facilities) to the first scan facility, rather than necessarily reflecting the incidence of bundle breakage that actually occurs within those facilities. Currently, however, without the opportunity to physically visit both sites to do observations, the Postal Service is unaware of anything that might explain the reason for the discrepancy in the bundle breakage percentages.

b. Both Facility 1 and Facility 2 have four active FSS machines. For FY 2019, Facility 1 processed 127,671,201 pieces using 115,842 work hours while Facility 2 processed 123,173,448 pieces using 62,429 work hours. Since FSS staffing requirements are the same nationwide, this difference in productivity can be attributed to three contributing factors. The first important distinction between

Facility 1 and Facility 2 is that Facility 2 only runs three FSS machines on Saturdays due to the current volume available to process. This allows Facility 2 to save work hours relative to Facility 1. Another important distinction is that the clearance time each day on each machine can have a direct impact on the total number of work hours dedicated to the FSS operation on that particular day, thereby having significant impacts on the overall productivity numbers for that facility on that day. The last, and most important distinction is to ensure that, as employees are moved from one operation to another, they are making clock ring moves to the proper operation numbers so that their workhours get charged to the appropriate operation and LDC (Labor Distribution Code). If this is not occurring consistently, across a whole year, it can have significant impact on the work hours attributed to a particular operation such as the FSS, thereby explaining the difference in actual work hours between Facility 1 and Facility 2.

c. Facility 2 operates a manual flat SCF operation (MODS operation 074) that is not present at Facility 1. Operation 074 accounts for the bulk of the manual flat workload at Facility 2. Additionally, since the measured manual flat volumes are calculated primarily as down flows from volumes processed on automation equipment, as noted in the response to Question 7(c) of this Information Request, the differences also in part reflect differences in the sites' flat-shape mail flows.

d. Bundles processed on the APPS machine on Incoming operation 244 and 245 and Outgoing operation 246 and 247 for the two facilities are below. The data source is WebMODS, and it should be noted that if a bundle is processed more than once on these operations at these facilities, it is counted more than once. Also the below count is not limited to Full-Service; WebMODS provides the count of all bundles processed on a specific machine/sort plan combination.

FY	Facility	Bundles Processed on Incoming Operation	Bundles Processed on Outgoing Operation
2018	Facility 1	3,456,705	7,214,436
2018	Facility 2	4,274,587	11,060,658
2019	Facility 1	1,169,529	12,205,940
2019	Facility 2	3,449,236	10,403,672

Data source: WebMODS

e. Please see the Excel file provided in USPS-FY19-48.

f. The Postal Service does not explicitly track bundles and pieces by destination facility and the destination facility is not retained in the Mail Characteristic Study (MCS) (USPS-FY19-14). The Mail.dat files used in the creation of the MCS can be used to infer the distribution of MCS estimates by destination for Marketing Mail Flats and Periodicals Outside County flats. The results of this exercise for the estimation average bundle sizes by bundle level are presented below.

		Marketing Mail Facility			Periodicals Facility	
Year	BundleLevel	**Facility 1**	**Facility 2**		**Facility 1**	**Facility 2**
FY18	Firm	0.0	0.0		1.0	1.0
FY18	CarrierRoute	32.8	30.3		15.5	16.5
FY18	FSS	41.5	40.7		34.4	35.8
FY18	5-Digit	23.5	20.8		14.4	11.6
FY18	3-Digit	20.8	21.0		16.1	15.9
FY18	ADC	11.6	14.0		8.6	11.5
FY18	MADC	23.6	16.0		18.6	18.7
FY18	Composite	34.0	32.3		19.3	21.0
FY19	Firm	0.0	0.0		1.0	1.0
FY19	CarrierRoute	33.6	32.2		15.7	16.5
FY19	FSS	43.3	44.1		36.3	38.6
FY19	5-Digit	23.4	21.4		14.3	11.7
FY19	3-Digit	20.5	19.8		16.1	15.3
FY19	ADC	11.1	13.3		8.4	11.7
FY19	MADC	23.8	16.2		16.0	19.0
FY19	Composite	34.9	35.1		19.7	22.4

g. The Postal Service does not explicitly track bundles and pieces by destination facility and the destination facility is not retained in the Mail Characteristic Study (MCS) (USPS-FY19-14). The Mail.dat files used in the creation of the MCS can be used to infer the distribution of MCS estimates by destination for Marketing Mail Flats and Periodicals Outside County flats. The results of this exercise to estimate the distribution of FSS bundles by container level and the proportion of FSS bundles bypassing bundle sort operations (that is those prepared on FSS Scheme pallets) are presented below.

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Marketing Mail Flats and Periodicals FSS Bundles by Container Level

Year	Container Level	Facility 1	Facility 2
FY18	MADC	128,262	76,522
FY18	NDC	262,544	148,440
FY18	ADC	26,624	29,139
FY18	SCF	1,242,267	1,391,213
FY18	3-DIGIT	210,959	102,058
FY18	FSS Facility	756,421	580,223
FY18	FSS Scheme	1,935,656	1,362,666
% avoiding bundle sort		42.4%	36.9%
FY19	MADC	112,094	76,110
FY19	NDC	215,503	134,025
FY19	ADC	22,135	27,605
FY19	SCF	1,184,598	1,443,947
FY19	3-DIGIT	140,194	52,814
FY19	FSS Facility	623,274	528,476
FY19	FSS Scheme	1,708,773	1,398,121
% avoiding bundle sort		42.6%	38.2%

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9. Please refer to Library Reference USPS-FY19-NP31, December 27, 2019, Excel file "NonPublic SV Data_FY15_FY19.xlsx." Please provide the annual on-time departure percentage by facility for both mail destined for Destination Delivery Unit (DDU) facilities and mail destined for Destination sectional center facilities (DSCF) in FY 2018 and FY 2019.

RESPONSE:

The requested data are provided under seal as part of USPS-FY19-NP39.

10. Please refer to Library Reference USPS-FY19-45, December 27, 2019, file "Paragraph (e) -- Pinch Point Reports," file "e.6 Surface Visibility," Excel file "Public SV Data_FY15_FY19.xlsx," and Library Reference USPS-FY19-NP31, December 27, 2019, Excel file "NonPublic NPA_Trips on Time Data_FY15_FY19.xlsx."

a. Please provide a narrative that explains how each "Utilization by Container Type" is calculated and explain how the Postal Service uses these data.

b. Please provide a narrative that explains how "Load Percentage" is calculated and explain how the Postal Service uses these data.

c. Please provide a narrative that explains how "% Trips On-Time," "% Extra Trips," and "Trips on Time Avg" are calculated and how the Postal Service uses these data.

RESPONSE:

The requested narratives regarding each measure (how calculated and how used) are provided as part of USPS-FY19-48.

11. Please refer to Library Reference USPS-FY19-45, December 27, 2019, file "Paragraph (e) -- Pinch Point Reports," file "e.2 Mail Processing Variance," Excel File "National MPVarFY15.19.xlsx" and Library Reference USPS-FY19-NP31, Excel file "NONPUBLIC MP Variance FY15_19.xlsx." Please explain how the "MANUAL FLATS" volume and productivity are calculated in both library references. Please specifically explain whether the "MANUAL FLATS" volume is an actual or estimated volume. If it is an estimate, please explain how the estimate is calculated.

RESPONSE:

Manual flat volumes are totaled for all LDC 14 flat operations per site based on finance number and time frame requested. Productivity is the manual flat volume divided by the actual hours used. Please note that on February 7, 2020, a revised version of the Mail Processing Variance file in USPS-FY19-NP31 was submitted, in which revisions are made in some of the column labels in certain tabs.

With respect to manual flats volume, it is an estimate. Beginning in 2015 (for FY 2016), a new method for calculating manual flat volume was implemented. Site specific automated flat volume for a 5-day period was pulled. Each site is allowed 7.0 percent of their automated volume credited to manual flat volume. The calculated volumes from the 5-day survey period is input into the FHP Manual Survey module in WebEOR by the local site. The site has the ability to indicate which manual flats MODS operation to flow to from the various flat automation levels. WebEOR will take the volume entered into the survey and calculate the percent to flow to manual flats. This FHP Manual Survey must be approved by both the Area Coordinator and Headquarters before it is implemented. Once approved, WebEOR will calculate the manual flat volumes based on the percent calculated from the survey and flow that volume to WebMODS by MODS operation number and finance number. There are manual down flows within MODS from one operation to another (like 060 primary to 070 secondary), so there can be additional volume within manual operations within MODS. Sites have local control over the down flow.

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12. Please refer to Library Reference USPS-FY19-45, December 27, 2019, "Paragraph (e) -- Pinch Point Reports," file "e.2 Mail Processing Variance," Excel File "National MPVarFY15.19.xlsx," tab "Target Narrative." The Postal Service lists three methods that were used to develop "Target productivities." Please identify which method was used to develop each FY 2019 "Target productivity."

RESPONSE:

The third method listed, upper quartile performance, was the method used for each of the target productivities in FY 2019.

13. The Postal Service stated that when it detects potential remail activity, it "sends notices to origin postal operators with options, charges, rate calculations, and deadlines" in order to stop remail.[4] The Postal Service notes that it detected potential remail activity from 14 countries in FY 2018 and FY 2019.[5] The Postal Service sent notices to these countries, pursuant to Universal Postal Convention article 12.4,[6] informing the designated operators that "the Postal Service reserves the right to charge more[.]" Responses to CHIR No. 4, question 16.a.

a. Please confirm that the Postal Service sent invoices to all 14 countries from which the Postal Service detected remail, charging these designated operators higher rates.

b. If not confirmed, please explain why the Postal Service did not exercise its right to charge more for remailed Inbound Letter Post items.

RESPONSE:

a. Not confirmed. The Postal Service sent notices of the right to charge more if the potential remail did not stop.

b. The primary objective was to stop further activity so that future mailpieces would not be routed through countries paying lower rates. Please see further details in the nonpublic versions of the responses to this question and question 14 of this Information Request filed under seal as part of the Preface of USPS-FY19-NP39, which explain why this objective was pursued, and why the Postal Service views it as likely to succeed.

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[4] Docket No. CP2019-155, Responses of the United States Postal Service to Questions 1-10 of Chairman's Information Request No. 1, June 7, 2019, question 4.

[5] Responses to CHIR No. 4, question 16.a.

[6] *See* Universal Postal Convention (2018), Article 12.4, available at: *http://www.upu.int/uploads/tx_sbdownloader/actInThreeVolumesManualOfConventionEn.pdf*.

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14. The Postal Service sent follow-up notices regarding detected remail activity to three countries. Responses to CHIR No. 4, question 16.a. The Postal Service is not bound to deliver such items and has the right to either return them to the designated operator of posting or handle them in accordance with national legislation. *See* Universal Postal Convention, Article 12.4. Please confirm that the Postal Service has or plans to exercise these options for remailed items from countries that have not responded to the Postal Service's notices. If not confirmed, please explain why the Postal Service does not plan to exercise these options.

RESPONSE:

Not confirmed. Please see further details in the nonpublic versions of the responses to this question and question 13 of this Information Request filed under seal as part of the Preface to USPS-FY19-NP39, which explain the approach to suspected remailing activity the Postal Service intends to pursue, and why it is likely to succeed.

15. Please identify the individual countries with Inbound Letter Post mail flows in Calendar Year (CY) 2018 and CY 2019 that exceeded the annual tonnage thresholds above which the Postal Service may charge per-item and per-kilogram terminal dues in accordance with Articles 29.16, 29.17, and 30.6 of the Universal Postal Convention. Please confirm that the Postal Service charged these countries the applicable per-item and per-kilogram terminal dues.[7] If not confirmed, please explain why the Postal Service did not charge these countries applicable per-item and per-kilogram terminal dues.

RESPONSE:

Confirmed in part. A more detailed version of this response, including country-specific, sensitive materials, is filed under seal in this docket as part of the Preface of USPS-FY19-NP39. The Postal Service notes that, although Universal Postal Convention Article 29.16 does not establish a mandatory 50 tonne threshold for flows between Group I countries, Convention Regulation Article 17-116 does not require operational format separation from Group I countries if the volumes are below 50 tonnes. The Postal Service has used the same Article 29.16 threshold for flows from Group I countries to avoid sampling expenses by applying those target countries' undifferentiated items per kilogram (IPK) for their inbound flows to charge undifferentiated per kilogram rates.

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[7] For Inbound Letter Post from UPU country groups II and III, and Inbound Letter Post from UPU country group IV voluntarily participating in the quality of service link to terminal dues, the CY 2018 terminal dues are found in UPU International Bureau Circular 77, May 5, 2019, Tables II.1, II.2, III.1, III.2, IV.4, and IV.5. The provisional CY 2019 terminal dues are in International Bureau Circular 88, Replacement August 20, 2018, Tables II.1, II.2 III.1, III.2, IV.4, and IV.5. Terminal dues for Inbound Letter Post from UPU country group IV that do not participate in the quality of service link to terminal dues are found in Articles 30.3 and 30.4 of the Universal Postal Convention.

16. Please refer to Docket No. ACR2018, Library Reference USPS-FY18-NP34, January 28, 2019, Excel file "ChIR.3.Q.13 IB LP Shape.Group.FY18.xlsx" (Docket No. ACR2018 USPS-FY18-NP34 file), tab "Summary," cell P17. Please also refer to Library Reference USPS-FY19-NP9, December 27, 2019 (revised January 10, 2020), Excel file "IB LP Shape by UPU Group FY19.Rev.1.10.20.xlsx" (USPS-FY19-NP9A file), tab "Summary," cell P33. Please reconcile the values in Docket No. ACR2018 USPS-FY18-NP34 file, tab "Summary," cell P17 and in USPS-FY19-NP9A file, tab "Summary," cell P33.

RESPONSE:

Please see the response filed under seal as part of the Preface of USPS-FY19-NP39.

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17. Please provide all supporting workpapers for the derivation of FY 2019 Total Factor Productivity (TFP).[8]

RESPONSE:

The public version of the requested workpapers is provided in USPS-FY19-48, and the nonpublic version is provided under seal in USPS-FY19-NP39.

[8] Library Reference USPS-FY19-17, 2019 Annual Report and Comprehensive Statement of Postal Operations, December 27, 2019, at 34.

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18. Please refer to Responses to CHIR No. 4, question 1.

a. The Postal Service identified Priority Mail Contract 406, Priority Mail Contract 548, and Priority Mail and First-Class Package Service Contract 4 as contracts that use non-eVS PostalOne as the payment method, and stated that non-eVS PostalOne does not store individual piece-level detail. Responses to CHIR No. 4, question 1. Please explain why non-eVS PostalOne is used as the payment method for these three contracts rather than other payment methods that store individual piece-level detail.

b. For contracts that use scan-based payment, the Postal Service states that it uses sampled pieces to calculate revenue and weight in PostalOne. *Id.* The Postal Service states: "These samples were used to distribute First-Class Package Service and Parcel Return Service to weight and zone for the first time in FY2019. This method was not applied to Priority Mail in time for production of USPS-FY2019-NP27. Samples will be used to produce Priority Mail profiles in FY2020." *Id.*

i. Please confirm that this sampling was used to distribute First-Class Package Service (FCPS) and Parcel Return Service (PRS) weight and zone only for contracts using scan-based payment. If confirmed, please identify these FCPS and PRS contracts. If not confirmed, please answer questions 18.b.ii and 18.b.iii.

ii. If the answer to question 18.b.i is "not confirmed," please identify all contracts affected by this change to using sampled pieces to calculate revenue and weight. Please also identify all files in USPS-FY19-NP27 or other library references affected by this change.

iii. If the answer to question 18.b.i is "not confirmed," please explain how the change to using sampled pieces to calculate revenue and weight represents an improvement upon the existing method of reporting weight and zone data for FCPS, PRS, and Priority Mail.

c. The Postal Service states that the Product Tracking Report (PTR) contains actual weight and zone for more than half of the pieces for Priority Mail Contract 77, permitting PTR data to be used to create the partner profile going forward. *Id.* For Priority Mail & First-Class Package Service Contract 80, however, the Postal Service states that it will continue to rely on the projected partner profile filed when the contract was submitted to the Commission for pre-implementation review. *See id.*

i. Please explain how data is collected for the PTR, including the factors that contribute to whether a contract's weight and zone data is captured in the PTR.

ii. Please identify possible methods for collecting sufficient weight and zone data for Priority Mail & First-Class Package Service Contract 80 to avoid the need to rely on the projected partner profile going forward.

RESPONSE:

a. After further review, it has been determined that, contrary to what was initially indicated in response to ChIR No 4, Priority Mail Contract 406 and Priority Mail and First-Class Package Service Contract 4 actually only use scan-based payment. In contrast, Priority Mail Contract 548 uses non-eVS PostalOne, because their multi-carrier shipping software is not supported by eVS. This customer would need to spend considerable integration costs that exceed their quarterly spend on Priority Mail shipping in order to enable eVS. If forced to move to eVS in order to use their NSA, this customer would not be able to justify the integration cost. A likely outcome is that the contract would be terminated and the customer would still use its non-eVS method, but for less volume due to less competitive pricing.

b. i. Confirmed.
ii. Not applicable
iii.Not Applicable

c. i. PTR contract weight and zone data are obtained from customers. For contracts with uniform pricing, the customer may choose to allocate all pieces to a single pound increment within each price regime. Contracts

Priority Mail 77 and Priority Mail & First-Class Package Services 80 are marketplaces where customers connect to buy and sell new and used merchandise. Uniform pricing allows the underlying customers to have the convenience of not having to weigh packages.

ii. For eVS customers, samples are taken to verify that the correct postage is collected. For Priority Mail & First-Class Package Service Contract 80, these samples can be used as the volume profile for calculating cost coverage going forward.

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19. Please refer to the Responses to CHIR No. 4, question 2. The Postal Service states that once package platform is fully deployed, it expects to collect weight information on 50 percent of packages. *Id.* Please explain why the Postal Service expects to have actual weight information on only 50 percent of packages rather than 100 percent of packages.

RESPONSE:

At the time Package Platform started development, 51 percent of commercial packages were DDU-entered. DDU-entered volume does not run on the automated full-network equipment that captures weight.

20. Please refer to the Responses to CHIR No. 4, question 4. The Postal Service states that 127 of the contracts identified in this question were terminated prior to the May 2019 establishment of improved internal reporting procedures for NSA terminations created in response to Order No. 5053.[9] The Postal Service states that the failure to report these early terminations was due to the same inadequate processes the Postal Service identified in the notice the Postal Service filed in response to Order No. 5053.[10] In the response to Order No. 5053, the Postal Service committed to following multiple new internal procedures, one of which was a quarterly review in which the Postal Service would compare the most recent version of the Mail Classification Schedule (MCS) with the Postal Service's records to identify any necessary corrections. Response to Order No. 5053 at 4-5. Please confirm that the Postal Service conducted the quarterly reviews described in the Response to Order No. 5053. If confirmed, please explain why these reviews failed to identify any of these 127 contracts that were listed on the MCS as active during FY 2019 but listed in the Postal Service's records as terminating prior to FY 2019.

RESPONSE:

Confirmed. As explained in the USPS Notice in Response to Order No. 5053, filed May 10, 2019, "the Postal Service will also perform an additional quarterly review of the NSA tracking spreadsheet to make sure that termination notices have been filed *for that quarter*. This quarterly review will involve an examination of the Commission's most recent electronic version of the Mail Classification Schedule (MCS), to ensure that the publicly posted MCS reflects the Postal Service's own NSA records." Response to Order No. 5053 at 3-4 (emphasis added). The Postal Service's quarterly review involves a review of the NSA tracking spreadsheet for the recently-concluded quarter to

[9] *See id;* Docket No. MC2016-20, *et al.*, Order Requiring Additional Information, April 10, 2019 (Order No. 5053).

ensure that notices were filed for all NSAs that were terminated early in that quarter, and to confirm that such terminations are reflected in the most recently available Mail Classification Schedule (MCS), which is typically updated around the start of each quarter. The Postal Service's quarterly reviews do not involve a review of contracts that terminated prior to the establishment of the Postal Service's enhanced internal reporting procedures in May 2019. Therefore, the 127 contracts cited in CHIR No. 4, Question 4, fell outside of the Postal Service's quarterly review process, as they all terminated prior to FY 2019.

[10] *Id.* *See* Docket No. MC2016-20, *et al.*, USPS Notice in Response to Order No. 5053, May 10, 2019 (Response to Order No. 5053).

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21. Please refer to Library Reference USPS-FY19-NP27, December 27, 2019, Excel file "NSACostRevenueSummary_FY19.xlsx," tabs "SummaryByClass" and "NSA2019 - DomesticCP - Summary." Please confirm that Priority Mail Express, Priority Mail & First-Class Package Service Contract 52 is accounted for in the product count for in First-Class Package Services product count, and that Priority Mail Express, Priority Mail & First-Class Package Service Contract 49 is accounted for in the Priority Mail Express, First-Class Package Service, and Priority Mail product count. If confirmed, please explain why these Priority Mail Express, Priority Mail & First-Class Package Service contracts are being accounted for differently in the product counts. If not confirmed, please identify how these contracts are accounted for in the product counts.

RESPONSE:

Confirmed. The number of NSAs is the count of mailers with volume in each product category. Priority Mail Express, Priority Mail & First-Class Package Service Contract 52 mailed only First-Class Package Services under its contract and has a count for that product only. Priority Mail Express, Priority Mail & First-Class Package Service Contract 49 has volume for each of the three products covered in its contract, so a count is included for each product.

22. Please refer to the Responses to CHIR No. 4, question 5. The Postal Service identified two international contracts that did not cover their attributable costs that have not expired or are not about to expire. *Id.*

a. With respect to the contract in Docket No. CP2009-28, please identify the remedial measures the Postal Service will take to ensure this contract covers its attributable costs.

b. With respect to the contract in Docket No. CP2015-52, please confirm that the Postal Service charged the mailer twice the price listed in Annex 1 of the contract in accordance with Article 27 of the contract.[11] If not confirmed, please explain.

RESPONSE:

a. At this time, the Postal Service is reviewing data in an effort to better understand the costs. As the sample sizes involved with international are small, that factor can contribute to variation in the cost data. The Postal Service will continue to monitor this situation, and take account of this situation for parcel post rates in ongoing rate negotiations with postal operators. As negotiations are currently underway with postal operators relating to the introduction of self-declared E format letter post rates in July 2020, negotiations related to parcel post and EMS rates can be rolled into those ongoing negotiations.

b. Please see response filed under seal as part of USPS-FY19-NP39.

[11] *See* Docket No. CP2015-52, Notice of the United States Postal Service Filing of a Functionally Equivalent International Business Reply Service Competitive Contract 3 Negotiated Service Agreement, March 16, 2015, Attachment 1 at 4.

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23. The Postal Service states that the Inbound Competitive Multi-Service Agreement with Foreign Postal Operators 1 product did not cover its costs because the only agreement within that product did not cover its attributable costs. FY 2019 ACR at 68. The Postal Service notes that a modification to the rates in this agreement, "which should improve cost coverage for the agreement in FY 2020" was pending before the Commission. *Id.* (footnote omitted). The Commission approved the modification to the rates in this agreement on December 31, 2019, based on FY 2018 costs.[12]

a. The FY 2019 costs for this product differ from the FY 2018 costs submitted with the modification. Please file in this docket updated financial workpapers for the CP2018-96 contract using the FY 2019 costs found in Library Reference USPS-FY19-NP2, Excel files "Domestic Tran Calcs.xls" and "Reports (Unified).xls."

b. Please describe the impact of using the FY 2019 costs on the projected cost coverage of the product.

c. If the projected cost coverage of the product falls below 100 percent when using FY 2019 costs, please explain what actions the Postal Service will take to improve the cost coverage of the agreement.

RESPONSE:

a. Updated financial workpapers for the CP2018-96 contract -- using the FY 2019 costs found in USPS-FY19-NP36, Excel files "Domestic Tran Calcs.xls" and "Reports (Unified).xls -- are included as "ChIR 9 Q23 NONPUBLIC Mod Three-USPS-CP2018-96.xls" file submitted under seal as part of USPS-FY19-NP39.

b. Using the FY 2019 costs on the projected cost coverage for the CP2018-96 contract, the projected cost coverage drops back below 100 percent.

c. At this time, the Postal Service is reviewing data in an effort to better understand the costs. As the sample sizes involved with international are small, that factor can contribute to variation in the cost data. The Postal Service will continue to monitor this situation, and take account of this situation for parcel post rates in ongoing rate negotiations with postal operators. As negotiations are currently underway with postal operators relating to the introduction of self-declared E format letter post rates in July 2020, negotiations related to parcel post and EMS rates can be rolled into those ongoing negotiations.

[12] Docket No. CP2018-96, Order Approving Modification Three to an Inbound Competitive Multi-Service Agreement with Foreign Postal Operators 1 Negotiated Service Agreement, December 31, 2019.

24. Please *see* Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of the Preface of USPS-FY19-NP39.

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25. Please *see* Attachment, filed under seal.

Please see the response filed under seal as part of the Preface of USPS-FY19-NP39.